

# Sourcing Momentum Fuels Overnight Shipping

**From administrative personnel to senior buyers,  
strategic sourcing catches on in Rhode Island.**

**By David Yarkin**

**I**n 2003, Rhode Island Governor Donald L. Carcieri took office determined to cut government spending and manage government more efficiently. Against the backdrop of a bloated bureaucracy and a series of tax increases by prior administrations that angered the public, Carcieri campaigned on the promise of a "Big Audit" that would probe deep inside state government and recommend cost-saving changes.

The outgrowth of the Big Audit campaign promise was the establishment of the governor's Fiscal Fitness program. The governor selected 60 state employees from a variety of agencies, both full and part-time, to staff the initiative. The group analyzed a multitude of programs and functions of state government. The Fiscal Fitness staff held fact-finding meetings with state employees from every agency and sought input from the public.

After the information gathering phase of the Big Audit had been completed, it was clear that a number of changes could be

made to deliver meaningful savings for Rhode Island taxpayers. A series of proposed reforms were vetted by Fiscal Fitness staff and ultimately sent to the governor for his approval.

More than 140 efficiency recommendations were projected to generate some \$400 million in cumulative savings over five years.

Prominent on the list of recommendations was procurement reform. Rhode Island's contracting procedures encouraged decentralization, effectively splitting the state's buying power into many pieces and reducing its leverage with suppliers.

"We didn't feel that the state was doing as good a job as it could in getting best value on goods and services," said Brian P. Stern, Executive Director of the Department of Administration and Purchasing Agent for the State of Rhode Island. "State agencies could negotiate with vendors on their own. We also weren't leveraging the buying power of our cities, towns, and school districts that make up a huge amount of spend."

While a number of stories have been written in recent months about strategic sourcing at the abstract level, few provide the tactics involved in sourcing a specific commodity.

"Sourcing in the States," a *Government Procurement* column by David Yarkin, covers state and local strategic sourcing methodologies. Until recently, Yarkin served as Deputy Secretary for Procurement in Pennsylvania's Department of General Services and led the state's successful strategic sourcing initiative.

In each issue, Yarkin will detail how his colleagues in other governments have generated value for their taxpayers through an individual sourcing project. This month, "Sourcing in the States" explores Rhode Island's procurement of overnight shipping services.

If your government has taken a particularly innovative approach to strategic sourcing, e-mail Yarkin at [dyarkin@govsourcing.com](mailto:dyarkin@govsourcing.com).

To read archived "Sourcing in the States" columns or watch an archived webcast about strategic sourcing, go to [www.govpro.com](http://www.govpro.com).

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## Rhode Island Strategically Sources Savings

The state hired the consulting firm Silver Oak (now CGI Spend Management Solutions) to strategically source six categories. "The Purchasing staff started to learn what this was all about, what we could do to get better value through our procurements," said Stern.

In all, the Silver Oak engagement yielded \$3.2 million in annual savings through six separate sourcing projects.

Eventually, Silver Oak and its team of consultants left and Rhode Island was at a crossroads. The state Purchasing agent's retirement was imminent, and other senior staff within the Purchasing Division were nearing retirement. Twenty percent of the staff had retired in the previous year. In a situation as such, the state easily could have slipped back into business practices in place prior to the strategic sourcing initiative. Carcieri knew that there was a danger of losing the momentum that his administration had gained as the result of a great deal of effort.

In January 2005, the governor approached Stern, who at the time managed the Division of Legal Services and the governor's Fiscal Fitness Program, and asked him to don the hat of State Purchasing Agent. Stern was asked to pick up the mantle of strategic sourcing and push hard to continue leveraging Rhode Island's spend to get the best value for the state's taxpayers.

Stern and his team began canvassing the list of commodities to find opportunities for further savings, but were challenged by a dated financial system. "Nothing was tracked by NIGP code or anything else," said Stern. As a result, the state had a very difficult time understanding how much it spent on many commodities.

Shortcomings in accessing meaningful data kept the category of overnight and express shipping off the radar screen. Like so many of Rhode Island's spend categories, there was no statewide contract for shipping. Instead, individual agencies had their own contracts with the

major carriers, with less spend than a statewide contract would have carried. As a result, shipping was not perceived to be a high spend category and did not rise to the top of the list.

That changed in the spring of 2005 with a combination of good luck, good training, and good execution by members of the Purchasing staff.

## Overnight Shipping Raises Red Flag

In March 2005, the Purchasing Division received a call from a state agency. The caller complained that when she called FedEx to pick up a package, she was told by the shipping company that it could not schedule a pick up because the agency's account was on hold.

Charlotte Melillo, the Purchasing Division's Chief Implementation Aide, took the call.

In the past, according to Stern, his staff's first inclination would have been to tell the caller that it was not a Purchasing Division contract, but an agency contract, so the caller should contact the supplier directly.

Because the newly revamped Purchasing Division was in step with Stern's customer service goals, the caller's message was forwarded up the chain of command.

When the Purchasing Division called FedEx to inquire about the service interruption, Purchasing was informed the account was two weeks behind on payment. The state asked the FedEx representative how many of its government clients pay in two weeks.

"There was silence on the phone," recalled Stern. The FedEx representative promised to look into the account and call back with some answers.

The feedback Stern received from FedEx was shocking. Due to the decentralization of Purchasing, state agencies had 96 unique accounts. In fact, there were multiple accounts within the same agency. None were labeled as government accounts, but instead, all were labeled as retail.

"For an overnight envelope, we were paying \$12 to \$13, the same as



*Rhode Island Governor Donald L. Carcieri's "Big Audit" recommended cost-saving changes that culminated in the Fiscal Fitness Program.*



*Brian P. Stern, Executive Director, Rhode Island Department of Administration and State Purchasing Agent, and staff leveraged the state's spend to get the best value for shipping.*

if you walked into a FedEx store on the street," said Stern.

The following day, the Purchasing Division received a call from the FedEx representative and was told that the state could begin a government program and immediately would see a significant discount off retail prices on certain packages.

"We didn't take that deal," said Stern. "My gut told me that if someone makes a first offer like that, there was probably more room to reduce the price."

After the initial offer from FedEx, managers from Purchasing gathered for an internal discussion and determined that shipping would make an excellent candidate for strategic sourcing. Due to the great disaggregation that had plagued previous contracts for shipping and the feedback from a key supplier stating that double-digit savings were instantly available, shipping went high up on Purchasing's radar screen.

## RFP Spells Out Delivery Categories and Timelines

The request for proposal (RFP) was developed with the precision typical of most strategically sourced contracts. Rather than an open-ended solicitation that asked for an across the board discount off retail prices, Rhode Island was very specific in how they wanted suppliers to offer pricing.

First, Rhode Island broke deliveries into two broad categories: commercial and residential deliveries. Within each category, deliveries

were further broken down into four timeline specific categories: next morning, next afternoon, two day, and ground. Finally, the state broke deliveries within each time-schedule category into geographic categories by the distance a package was to be shipped. The mileages ranged from less than 150 miles up to more than 1,800 miles and included international deliveries. Suppliers were asked to offer a discount off list price for each of the mileage categories within the scheduling categories. Finally, suppliers were asked to show their list pricing for different weights (*see below*).

In the RFP, the state told suppliers that the vast majority of its deliveries—80 percent—would be within the 1- to 150-mile geographic category and that when it evaluated cost, 80 percent of the available points would come from that most local category. The obvious signal to suppliers was to price the local deliveries most aggressively.

A series of mandatory requirements assured state agencies high service levels and convenience. Suppliers had to commit to provide, at no additional cost, express shipping materials and supplies—from the ubiquitous express envelopes to forms pre-populated with the shippers' return address. Suppliers were also required give agencies software to prepare articles for shipment, including free upgrades throughout the life of the contract.

Technological advancements in the shipping business were also evident in the RFP's mandatory requirements. Suppliers would be required to e-mail or fax a copy of the recipient's signature upon request. End users needed to have the ability to order and print labels online. And

suppliers were required to provide access to tracking information on a 24 hour basis, either online or via telephone.

### State Awards Overnight Shipping Contract

One month after the RFP was released, responses were received from two carriers: FedEx and UPS. While the U.S. Postal Service expressed an interest in competing, ultimately they elected not to submit a proposal. To review the proposals, Stern assembled an evaluation committee consisting of representatives from the state mail room, the Fiscal Fitness program, Purchasing, information technology, and several using agencies. The committee recommended a best value award to FedEx.

The results from a savings perspective alone were dramatic. Conservatively, Stern estimates that the state will save \$750,000. In some categories, the state will see savings approaching 60 percent compared to the prices paid previously with a multitude of overnight carriers.

According to Monica Fleischmann, FedEx Worldwide Account Manager, when a customer segments its solicitation to tell suppliers what percent of its shipments are being delivered locally compared to longer domestic or international shipments, the company is able to offer customers more aggressive pricing.

The benefits of Rhode Island's new contract extend beyond hard-dollar savings. "New technology reduces cost," said Fleischmann. "It is important for people to know how to use our technology, so we spend a great deal of time training them on it."

In an era of heightened security, online tracking plays an even larger role. "Online ordering provides more

security than traditional shipping methods," said Fleischmann. "It is easier for us to trace and track. When you fill out a paper air bill, we only have time to enter the zip code into our system. But when an end user orders a delivery online, the entire address is inputted into our system."

The benefits of the state's new contract with FedEx extend to cities and towns, colleges and universities, and school districts. FedEx is required to offer the same low rates to all Rhode Island public procurement units. "One priority of mine is that whenever we can, we leverage state spend to get better deals for governments and schools at the local level," said Stern. "With this contract, we have done that."

Stern was concerned, however, that local governments and schools would not know about the new shipping contract, and, therefore, not be able to take advantage of it. Since his staff did not have the resources to sufficiently educate political subdivisions about the contract, Stern is heavily relying on FedEx to market the contract throughout the state.

"It's in the best interest of the towns to do it," said Stern. "if I send an e-mail they may do it, if FedEx markets the contract hard, it is more likely to gain traction."

A great benefit to the state and local governments is the focus on training that FedEx brings to customers.

Fleischmann said, "We want all of our customers to be smart shippers. We want them to utilize our technologies so they can save time and save money. We work with customers to help them buy the shipping services they need and not more. For example, I may have a customer who needs a package to arrive in three weeks. If we have

Next Day AM Commercial Delivery Pricing										
Package Delivery List Price (\$)										
Weight	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	AK, HI	Puerto Rico	International
	1 - 150 miles	151 - 300 miles	301 - 600 miles	601 - 1000 miles	1001 - 1400 miles	1401 - 1800 miles	> 1800 Miles	Zone	Zone	Zone
	Discount %	Discount %	Discount %	Discount %	Discount %	Discount %	Discount %	Discount %	Discount %	Discount %
	%	%	%	%	%	%	%	%	%	%
Letter										
1 lbs										
2 lbs										

In Rhode Island's RFP for overnight shipping, the state specified how suppliers list pricing for categories, timelines, mileage, and weight.



done our job right, the customer will know to ship it ground instead of overnight, because the costs are so much less. This leads to dramatic savings for our customers.”

In working with the human resources departments of its customers, FedEx is able to add logistics to new employee orientation sessions.

“This is how we make customers

smart shippers,” said Fleischmann.

### **Purchasing Staff Supports Sourcing Strategy**

Stern cites the shipping strategic sourcing procurement as a seminal moment in the evolution of the state’s procurement operations. “In the old days, when the agency called our office, the administrative person

would have said this isn’t a Purchasing contract. Deal with it on your own. Instead, someone had the forethought to raise it up the flagpole,” said Stern.

The arrival of the Silver Oak consultants was dreaded by many in Purchasing. Those set in their ways believed the consultants would ask, “Why haven’t you been doing this for years?” In the worst case scenario, purchasers feared their jobs would be outsourced.

“After they received training and bought into the system, people realized that there was a different way to do things,” said Stern. “People are happier in their jobs when they are getting savings and setting up better contracts—rather than performing clerical functions.”

By working as a team and employing sound strategic sourcing processes, the Rhode Island Purchasing Division established a very competitive contract for overnight shipping and generated dramatic savings. This was one example of how the philosophy in Rhode Island government had shifted and “Fiscal Fitness” has become standard business practice.

“Sourcing is catching on from administrative staff to the most senior buyer, and this procurement proved that everyone has to be part of the process,” said Stern.

By pushing ahead with smart procurement practices, Governor Carcieri and Brian Stern have proved to their colleagues throughout the country that there is life in strategic sourcing even after your consultants have departed. □

### **About the Author**



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